

APPENDIX A

**ANNUAL AUDIT OPINION
2018 / 2019**



ANNUAL REPORT

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INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) states that the Chief Audit Executive must produce an annual report that can be used to inform the Annual Governance Statement, which forms part of the Council's accounts. It must include an opinion on the overall adequacy of the governance, risk and control framework; a summary of the work from which the opinion is derived and a statement on conformance with the PSIAS.

This report, the Annual Audit Opinion, fulfils these requirements.

The Chief Audit Executive (CAE) at Peterborough City Council is the Chief Internal Auditor, who reports to the Acting Director of Corporate Resources.

ARRIVING AT AN OPINION

Background

The opinion is derived from work carried out by Internal Audit during the year, as part of the agreed Internal Audit Plan for 2018 / 2019. The Internal Audit Plan was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control. We have conducted our audits both in accordance PSIAS and our own internal quality assurance systems. Our opinion is limited to the work carried out by Internal Audit but, where possible, we have considered the work of other assurance providers, such as External Audit.

Risk Based Planning

A risk based approach is used to develop the Internal Audit Annual Plan, allowing us to direct resources at areas key to the organisation's success and to provide an opinion on the control environment as a whole. In an ever changing risk and control environment, it is important that audit plans can adapt quickly to the needs of the Council. As such, risks have been reviewed during the year and the plan has been revised accordingly. Revisions were reported and approved at our mid-year report to Audit Committee on 19 November 2018. Each audit job also uses risk assessment to ensure that suitable audit time and resources are devoted to the more significant areas. Our approach gives precedence to areas assessed as high risk, however we aim to provide coverage over a wide range of activities, as listed below, to ensure our opinion is comprehensive.

- Corporate Governance, including information governance and risk management
- Partnerships and external organisations
- Programmes and projects
- Contracts and procurement
- Financial systems
- Service delivery risks

- Anti-fraud culture

The Audit Review

There are two key elements to each internal audit review.

- Firstly, the control and risk environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to establish an opinion on how well the control framework has been designed to mitigate identified risk, and whether there are any gaps in control.
- However, controls are not always complied with which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are operating in practice. This element of the review enables internal audit to form a view on the extent of compliance with the control framework.

Reporting

Where appropriate, each report we issue during the year is given an overall opinion, as shown in the table below.

Certain pieces of work do not result in an audit report with an opinion – such as consultancy work, grant reviews and involvement in working groups. However the certification of grant work should indicate that at the point of approval, information being submitted to external organisation meets required criteria. The assessment from each report, along with our consideration of other audit work, is used to formulate the overall Opinion.

Opinion / Assurance	Description
SUBSTANTIAL	The internal control system is well designed to meet objectives and address relevant risks, and key controls are consistently applied. There is some scope to improve the design of, or compliance with, the control framework in order to increase efficiency and effectiveness.
REASONABLE	The internal control system is generally sound but there are some weaknesses in the design of controls and / or the inconsistent application of controls. Opportunities exist to strengthen the control framework and mitigate further against potential risks.
LIMITED	The internal control system is poorly designed and / or there is significant non-compliance with controls, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.

NO	There are significant weaknesses in the design of the internal control system, and there is consistent non-compliance with those controls that exist. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.
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RECOMMENDATION GRADES	
Grade	Description
CRITICAL	Fundamental control weakness that jeopardises the complete operation of the service. TO BE IMPLEMENTED IMMEDIATELY.
HIGH	Major control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. To be implemented as a matter of priority.
MEDIUM	Moderate control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. To be implemented at the first opportunity.
LOW	Minor control weakness, which, if corrected, will enhance control procedures that are already relatively robust. To be implemented as soon as reasonably practical.

OPINION 2018 / 2019

As Chief Internal Auditor, in line with Public Sector Internal Audit Standards and prior best practice, I am required to provide an opinion on the overall adequacy and effectiveness of the Council's control environment. I have undertaken the following in order to form a basis for providing my assurance:

- Assessed the quantity and coverage of internal audit work against the 2018 / 2019 internal audit plan to allow a reasonable conclusion as to the adequacy and effectiveness of the council's risk management control and governance processes;
- Reviewed the reports from the reviews undertaken during the year by Internal Audit and other assurance providers where appropriate;
- Considered any significant actions not accepted by management and the consequent risks;
- Assessed the status of actions identified as not implemented as part of Internal Audit follow up reviews and subsequent progress tracking;
- Considered the effects of significant changes in the Council's objectives or systems and the requirement for Internal Audit involvement;
- Reviewed and considered matters arising from reports to Council committees; and
- Considered whether there were any limitations which may have been placed on the scope of Internal Audit.

Following consideration of the above I am able to provide the following Opinion for 2018 / 2019:

*I am satisfied that sufficient quantity and coverage of internal audit work and other independent assurance work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, control and governance processes. **In my opinion, the Council has adequate and effective systems of internal control in place to manage the achievement of its objectives.** In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes.*

Notwithstanding my overall opinion, Internal Audit's work identified a number of opportunities for improving control procedures which management has accepted and are documented in each individual audit report.

Chief Internal Auditor
June 2019

BASIS OF ANNUAL OPINION

The audit work that was completed for the year to 31 March 2019 is detailed at the end of this report and lists each audit and individual result in terms of the audit assurance level and the number of recommendations made. A summary of assurance levels is detailed below. This shows that 72% of the systems that were given an opinion achieved an assurance level of reasonable or higher (2016-17: 60% and 2017-8: 84%).

AUDIT ASSURANCE						
Assurance Levels	Issued			%		
	2016/17	2017/18	2018/19	2016/17	2017/18	2018/19
Substantial	5	1	1	33	5	5
Reasonable	4	14	12	27	79	67
Limited	5	2	5	33	11	28
No	1	1	0	7	5	0
	15	18	18	100	100	100

RECOMMENDATIONS MADE			
	Numbers		
	2016/17	2017/18	2018/19
Low	35	30	17
Medium	62	47	43
High	42	31	18
Critical	0	0	0
	139	108	78

In addition to the audits detailed in the above table, further audit work was carried out which feeds into the overall opinion, including:

- 10 grant reviews, all of which were certified
- 17 pieces of consultancy or control advice;
- 7 governance reports.

At the year-end 2 audit reviews and 1 piece of consultancy work were in progress and audit opinions relating to these will be reported during 2019-20 as part of the agreed performance reporting timetable to the Audit Committee.

Scope Limitations and Impairments

PSIAS states that the CAE should disclose any impairments or restrictions to the scope of Internal Audit work. Our Internal Audit Charter sets out our remit and authority to have full, free and unrestricted access to any of the organisation's records, assets and people. This includes access to organisations where council data is processed as part of a contractual arrangement. One area that requires further clarity is our access to the various external organisations and partnerships in which the Council has an interest, and this is currently under review. This has not impacted on our audits of external organisations, save for one presently underway regarding the project to transition services from Amey to our Local Authority Trading company, Aragon Services.

In line with the PSIAS, we have a process for team members to declare any interests that may impact on the impartiality of our work. I can confirm that all declarations have been made as necessary, and no conflicts have occurred during 2018-19 that have impaired the work carried out.

Where the CAE has roles or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity. The CAE at Peterborough manages the Insurance and Investigations teams, conducts stage 2 corporate complaint reviews and acts as a reserve approver for payments from the Council's (and Combined Authority's) bank accounts. Our Charter states that, should we carry out an audit of these areas, the work will be quality assured independently from the CAE. Our audit of Treasury Management on behalf of the Combined Authority (which has provided Peterborough City Council with a degree of assurance) falls into this category. I can confirm that the work was managed and reviewed by the Group Auditor.

Acceptance and Implementation of Recommendations

94% of the recommendations made (where reports have been finalised) have been accepted fully or partially. Those not accepted were due to a change in practice making them no longer relevant.

	Critical	High	Medium	Low	Total	%
Recommendations Made	0	13	26	7	46	
Agreed	0	13	25	5	43	94
Partially Agreed	0	0	1	0	1	2
Not Agreed	0	0	0	2	2	4

Where follow-ups have been carried out 57% of agreed actions have been implemented, 33% were in progress at the time of the review and 10% were no longer relevant. Where important recommendations have not yet been actioned, we will continue to track progress. The majority of recommendations reported here as being in progress relate to a follow up of our information governance audit, and this is currently being reviewed again.

	Critical	High	Medium	Low	Total	%
Recommendations Agreed	0	21	21	7	49	
Implemented	0	11	11	6	28	57
In progress	0	6	9	1	16	33
No longer relevant	0	4	1	0	5	10

Corporate Governance

A new corporate board structure was planned for 2018-19 to streamline roles and accountabilities at senior management level. It did not occur as planned, as a review scrutiny arrangements for external and commercial bodies took precedence (see section below on Partnerships and External Organisations). Internal Audit have included a review of this area in the 2019/20 plan.

A Control Self-Assessment document was issued to all Directors in March 2019. The responses received have then been used to formulate any significant issues for the Annual Governance Statement as well as issues arising from internal audit reports. The Chief Internal Auditor has traditionally produced the Annual Governance Statement each year, contrary to recommended practice within the audit standards. In a departure to that this year, Internal Audit referred details from each area through to the Acting Corporate Director of Resources for compilation. The final Annual Governance Statement has then been discussed and agreed by the Chief Executive and the Director of Governance.

Risk Management

The Risk Management Board was formed in 2018 to carry on and develop the work previously lead by the Resilience Team. It is chaired by the Acting Corporate Director of Resources and has representation from all directorates, along with Insurance and Internal Audit. Departmental risk registers are updated and discussed at each meeting (bi-monthly) and recorded on VERTO, our project management system. The Project Management Office collate and report the information, which is discussed at Corporate Management Team meetings. Issues that are assessed with a high level of risk are escalated to the Strategic Risk Register, and reported to Audit Committee. Developments this year include a review of shared risks with Cambridge County, for example on Brexit issues. Internal Audit have lead on the establishment of a Fraud Risk Register and this will be taken through the board during 2019 to gain ownership of the document.

Information Governance

Internal Audit have been involved in a variety of initiatives and work streams in this area. We conducted a follow-up audit of Information Governance, including an overview of GDPR implementation plans; attended the Information Management Strategic Board meetings; and have kept a watching brief on cyber security developments, including business continuity and disaster recovery, via the Cyber Security Stocktake programme.

The latter involved a self-assessment against an LGA questionnaire as part of a bid for funding to improve **cyber security**. Much work has been done in the latter half of the year to fill some of the gaps identified including: compiling an asset register of IT equipment and mobile devices; reviewing the process for starters, leavers and movers; publishing training for staff at Cambridge and Peterborough (for which funding was received); determining responsibilities for monitoring and reporting information in relation to cyber security. We will continue to monitor this programme of work, including the planned independent 'gap analysis' review.

The Resilience Team leads on **business continuity** and have been working together with Cambridgeshire to align our methodology with theirs. As from April 2019 the Resilience Teams from Peterborough and Cambridge have joined to become a shared service within the Corporate and Customer Services Directorate and there

is a dedicated Business Continuity officer. Work is underway to develop business continuity plans for each department and there is a significant amount of work to do. In conjunction with this, a recent project managed by Serco, has identified business critical systems and options for **disaster recovery** for the servers based at Sand Martin House. Work continues to be progressed to develop a detailed DR solution. Our plan for 19/20 includes a review of business continuity and the impact of agile working.

The **Information Governance** teams at Peterborough and Cambridge have joined and are working to align practices and this has impacted on the achievement of agreed actions. Our follow-up showed that 8 of the 17 recommendations have been implemented with the remaining 9 being progressed. We also reviewed data security arrangements in relation to the move to Sand Martin House and the arrangements for compliance with GDPR, with no issues to report. We have just commenced another piece of work to assess the status of the actions outstanding at the time of this follow-up.

Financial Governance

The Council continues to face a difficult budget position due to increasing demands for services and reductions in government grants. As a high risk area, we included a review of budgetary control in our plan. The focus of our audit was the processes in place to identify, validate and track savings proposals, and in principle these are good. Those processes can only be effective, however, when there is a common understanding and application of the process, along with increased ownership and accountability, across the Council. Whilst we are awaiting a response to our draft report, we are aware that significant work is underway to identify savings for the 2020/21 MTFs and we have set aside time in our 2019/20 plan to look at this area again.

In our role as auditors for the Cambridge and Peterborough Combined Authority (CPCA) we conducted a review of Treasury Management. As this function is carried out by Peterborough's Treasury Team, we can gain some assurance on the control framework at Peterborough from our work. This is because, although we only reviewed transactions relating to the CPCA, the processes examined are predominantly the same for both authorities.

Other areas of work that Internal Audit were involved in include a review of Financial Regulations, which was undertaken by the Finance Team in the early part of 2018, to which Internal Audit contributed advice and comment. This work has yet to be completed and, as such, the Financial Regulations document remains out of date. Also, we provided advice on controls for new system for managing expenditure on Procurement Cards, which was implemented in the latter part of the financial year and is now operational. The control environment remains similar to that under the previous system, although a process for online approval of expenditure is being progressed, which will improve controls. Several other smaller pieces of control advice were provided, predominantly around payment systems operated by Serco, and it is pleasing to note that staff seek advice when they have queries about controls, or there are changes to systems.

Partnerships and External Organisations

We completed audits of the Peterborough Investment Partnership and the Norfolk Property Services Peterborough Joint Venture. Our main findings were around the need for an overarching governance framework to independently challenge and monitor the activities of external organisations, and guidance for Council

members and employees who take on roles within them. Scrutiny and client management arrangements have now been developed and a Shareholders Committee has been established from April 2019, with its first meeting in June. Documented guidance has just been published.

We also carried out a financial audit of the Mayor's Charities Fund, in line with Charity Commission requirements, with no matters to report. Financial administration of the fund had been brought in house in 2017/18 and therefore we also looked at financial and governance controls. A number of improvements were identified, some of which were initiated during the course of our audit. The fund now comes under the umbrella of the new Shareholders Committee.

We looked at the arrangements for the transfer of services from Amey to our new local authority trading company, Aragon Services, via a review of the management of the project. Work is still underway to obtain all necessary documentation to be able to form an opinion.

We will continue to examine this important area in 2019/20 with follow-ups of the above audits, the annual financial audit of the Mayor's Charities Fund and a review of the new governance framework for external organisations. We aim also to look specifically at the governance and service delivery arrangements for Aragon Services.

Programmes and Projects

The Programme Management Office oversee project management arrangements, including monitoring use of the project management system, VERTO, advising project managers and producing reports for senior management. We carried out a follow-up of our audit of VERTO and its use, which showed good improvements in its use by managers, as well as the revised reporting functionality. A follow-up of the Nene Park Academy project was also undertaken, with all recommendations implemented. A review of the project to manage the transition from Amey to Aragon is underway and an overarching review of project management arrangements is included in the 2019-20 plan.

Contracting and Procurement

A number of Internal Audit reviews have touched on this topic. Our review of the Norfolk Property Services (NPS) joint venture looked at the contractual relationship as well as the partnership between Peterborough and NPS, and we also covered contract management arrangements as part of an audit of Passenger Transport. Our review of the TACT contract was removed from the plan as a consultant was engaged to assist in negotiations regarding a contract dispute, which we understand has now been resolved. We are currently working on a review of contract tendering arrangements, as well as a follow-up of the Materials Recycling Contract audit (previously a limited opinion). From our work so far, our view is that contract management responsibilities are not always well defined and prioritised, and there is limited guidance for managers. We have a review of this topic planned for 2019-20.

Service Delivery

A wide range of audits was carried out across all directorates and covering important areas, such as Safeguarding and Health and Safety. On the whole there are no major risks to report. However our review of Health and Safety highlighted some key improvements needed to the governance framework, and this was compounded by the outcome of an external review into fire safety. Please see section below on 'significant issues' for further information.

Anti-fraud Culture

Internal audit also includes the investigations team who are responsible for reviewing council tax fraud, corporate fraud, staff misconduct and Blue Badge fraud. A separate report covering their activity for the year is brought to the Audit Committee alongside this one. There is some crossover in the work of the investigations team and Internal Audit, particularly where control failures have resulted in alleged corporate fraud, however Internal Audit has not been involved in any fraud investigations this year. We did investigate an allegation of an irregular invoices raised by one of our schools and the results of this were passed to the appropriate team for consideration and amendment (including the payment of VAT that was previously excluded). Work has been carried out with regards to the National Fraud Initiative to organize and verify the download of data from a variety of Council systems. This statutory exercise involves data matching of public and private sector data to detect potential fraud. The resultant reports have been received recently and will be investigated this year.

Significant Issues

The PSIAS state that the Chief Audit Executive should report any issues considered particularly relevant to the preparation of the Annual Governance Statement. The following areas are noteworthy.

- **Health and Safety/Fire Safety** - Three reviews have been undertaken in this area, initially one by Internal Audit and then subsequently two more by a consultant following concerns around fire safety and evacuation procedures at Sand Martin House. All reported on the need to improve governance arrangements, particularly the need to re-instate a Health and Safety Board, report on key performance targets and ensure roles and responsibilities are properly allocated. There is now a new Health and Safety Board overseeing the implementation of all recommendations and we have a further audit of this area in our 2019-20 plan.
- **Cyber Security** – as mentioned above there is a significant amount of work being undertaken presently to improve our arrangements for the security of our IT systems and the data within them. And whilst there is a lot of good practice in place, the fact that this work is required is evidence that there have been gaps in our arrangements over the year. A further gap analysis is planned and Internal Audit will continue to monitor this area.
- **Statutory Testing** (the regulatory requirement to test electrical and safety equipment) – this subject received a limited opinion when we reviewed it in 2016, particularly in relation to the arrangements for monitoring and ensuring that tests had occurred. It has been difficult to obtain further information on the status of the agreed actions due to the ongoing review of the Amey contract. We aim to review this area again early in 2019-20 as part of the Aragon Services contract review.

- **External Organisations** – over the years the number of external organisations for which the Council has accountability (albeit in partnership with other organisations in some instances) has steadily grown. The governance arrangements for each have been developed separately and accountability has been spread across various directorates, members and officers. As such, there has been limited overarching monitoring and scrutiny of the arrangements and a lack of clarity over the separate roles of managing the contractual relationship and managing our interests in the organisation. A new governance structure has been developed in conjunction with the development of the arrangements for the new LATCo, Aragon Direct Services. The Shareholders Committee was operational from April 2019 and oversees all external organisations. It meets in public and subject to scrutiny through the Scrutiny Committee for Growth, Environment and Resources and also accounts to the Council’s Audit Committee. Our audits also noted a lack of guidance for those involved, particularly in relation to the statutory duties of directors and the possible conflicts of interest that this can bring about. Plans are in place to develop such guidance.
- **Budgetary Control** – this is a critical time for the Council and there is significant work underway to identify options to bridge the deficit. Our work looked at a discreet aspect of the budgetary process - the arrangements to track delivery of savings targets – and identified a number of areas where practices can be improved. This included the need to have a consistent approach that is understood and followed across the whole organisation, along with the continued development of the corporate savings tracker, thus ensuring proposals are robust and that mitigating actions can be taken if required.

Limited and No Assurance reports

The audits listed below have resulted in a limited or no assurance opinion. In line with our Internal Audit Charter, where the resultant reports have been issued as a final, executive summaries are provided for your information. See table at the end of this report.

Reports for 15 July 2019

- NPSP Joint Venture (Final)
- Mayor’s Charities Fund (Final)
- Savings Targets (Draft)
- Procurement Card System (Draft)

RESOURCING AND PERFORMANCE

Resourcing

During 2018 / 2019, resources were slightly higher than planned, predominantly due to the employment of two temporary auditors in the early part of 2019 to provide some cover for the vacant Senior Auditor post. This post is being recruited for currently, with interview dates set for the end of July. Our sickness levels remain low, at an average of 3.25 days per FTE and this has not impacted on the deliverability of audits in general, as we assume a contingency for this when compiling our annual plan.

We have spent more time than planned on work for other entities (214 days compared to 152 days), and this represents 22% of the time available for audit work. The proportion of time spent in this area is set to remain at this level in the 2019-20 plan. This work is chargeable to the organisations involved.

	No. of posts	Planned	Total in post for 2018/19	Audit Work PCC	Audit Work other entities	Non-Audit Work *
	Posts	FTE	FTE	%	%	%
Chief Internal Auditor	1.0	1.00	1.00	40%	25%	35%
Group Auditor	2.0	1.46	1.57	78%	19%	3%
Principal Auditor	1.0	0.50	0.50	100%	-	-
Senior Auditor	1.0	1.00	1.00	61%	39%	-
Senior Auditor (vacant) covered by agency staff	1.0		0.40	50%	50%	-
Auditor	1.0	1.00	1.00	99%	-	1%
TOTAL	7.0	4.96	5.47	69%	22%	9%

*Insurance/Investigations/Complaints/Elections/Job Evaluation

Quality Assurance

Compliance with Public Sector Internal Audit Standards:

An external assessment of Internal Audit's compliance with Public Sector Internal Audit Standards (PSIAS) was carried out in March 2018, with a final report being received in November 2018 awarding a Full Compliance opinion. The Internal Audit Service has operated in compliance with PSIAS throughout the year.

Improvement Plan:

Internal Audit have developed an improvement plan in response to the recommendations of best practice contained within the above report, and including our service development plans. Progress to date includes:

- Inclusion of specific information within our Audit Charter, Annual Audit Opinion and progress reports to Audit Committee.
- Update of our documented working practices.
- Review of our control evaluation process.
- Review of our follow-up process and tracking of recommendations.
- Passing on the responsibility for drafting the Annual Governance statement to management.

- Reviewing the job description of the CAE.

Training:

Continuing professional development is a key aspect of the quality assurance programme, to ensure staff have the skills to carry out their responsibilities. There is a limited budget to purchase formal training, and we utilise free webinars, network events and team meetings to deliver training. Staff are also encouraged to carry out their own reading and research, and this has been particularly useful in our reviews of joint ventures and charities in which the Council has an interest. There is also regular supervision of staff, and all audits are subject to a quality review by the Group auditors to ensure standards and quality are maintained.

Performance

Delivery of Plan:

We delivered 603 audit days to Peterborough against a plan of 578 days; and 214 audit days to external organisations against a plan of 152 days. Additional days have been delivered by the employment of temps as well as permanent staff working additional hours.

In accordance with best practice, the Annual Audit Plan was re-assessed throughout the year to ensure it was aligned to changing risks and priorities, therefore the audits planned at the beginning of the year are rarely the same as the ones completed by the end of the year. The Audit committee reviewed the updated plan at its November 2018 meeting and it is worth noting that the resources being planned for at that stage were higher than actually occurred (as temps were recruited later than planned).

This report lists the audits as outlined in the November version, along with subsequent additions and deletions. Since that time, 8 audits were deferred or removed, 4 were added, and additional work was completed for external organisations. The original Annual Plan contained 54 separate jobs for the Council, and although some jobs have been removed, others added, and scopes of work have been changed, we have completed 51 pieces of work and have 3 currently in progress.

Overall, there has been significant additional work carried out compared to that originally planned in the following areas:

- Mayor's Charities Fund – Following a decision to bring the treasurer role into the Council, Internal Audit carried out a detailed bank reconciliation; produced accounting statements for 16/17 and 17/18; advised on the form and content of the Trustee's Annual Report; restructured the spreadsheet used to record income and expenditure. This will enable easier reconciliations to take place and automate the production of annual accounts in future.
- Connecting Families. There has been a significant increase in the number of claims being submitted as the scheme is nearing its conclusion. Claims are made approximately monthly now, instead of quarterly, and there has been significant involvement in the update of the Council's Outcomes Plan.

Responses to Audit Reports

For audits completed in 2018-19 there has been an average of 99 days between issuing a draft report to management, and issuing a final report with management comments. This statistic includes a number of reports that are outstanding, as detailed in the table below, although there have been others during the year with long turn-around times. We aim to turn a draft into a final within 28 days, and provide a target date for response, as well as reminders. Generally this figure is reflective of the fact that, with reduced officer numbers, operational activities take priority over audit reports. We will review our protocol for escalating late responses as well as how we manage the conclusion of an audit.

Audit	Directorate	Date Draft issued	Days overdue
Gifts And Hospitality	Law and Governance	25 Sept 2018	269
Passenger Transport	People and Communities	20 Feb 2019	121
Savings Targets	Resources	24 April 2019	58
Procurement Cards	Resources	4 April 2019	78

ASSURANCE LEVELS AND RECOMMENDATIONS 2018 / 2019

Audit Activity	Department	Audit Type	Assurance opinion	Description
ANNUAL GOVERNANCE AND ASSURANCE				
Annual Governance Statement Review	All	consultancy	n/a	Annual Governance Statement for 2017-18 was presented to Audit Committee on 16 July 2018.
Senior Management Control Risk Self-Assessment	All	consultancy	n/a	Collation of results from a self-assessment completed by directors, and fed into the Annual Governance Statement for 2018-19.
Annual Investigations Report	All	consultancy	n/a	Annual Report for 2017-18 was presented to Audit Committee on 16 July 2018
Annual Audit Opinion	All	consultancy	n/a	Mid-year progress for 2017-18 was presented to Audit Committee on 19 November 2018.
				Annual Opinion for 2017-18 was presented to Audit Committee on 16 July 2018.
Annual Audit Plan & Strategy	All	consultancy	n/a	For 2019-20. Included a discussion report to Audit Committee on emerging themes and planning approach on 11 February 2019, as well as a review of our charter and ethics documents. The Plan, Strategy, Code of Ethics and Charter were presented to Audit Committee on 25 March 2019.
Internal Audit Effectiveness	All	consultancy	n/a	An external review of our compliance with PSIAS occurred in 2018. An improvement plan was produced and reported to the Audit Committee on 11 February 2019. Progress is detailed in the main body of this report.
Audit Committee Effectiveness	All	consultancy	n/a	An annual review that is being reported to the Audit Committee at this meeting, on 15 July 2019.

Audit Activity	Department	Audit Type	Assurance opinion	Description
CORPORATE GOVERNANCE AND RISK MANAGEMENT				
Information Governance	All	Consultancy	n/a	Involvement in the Information Management Strategic Board and any emerging issues.
Cyber Security	All	Consultancy	Limited	Overview of cyber security developments, including business continuity and disaster recovery, via the Cyber Security Stocktake programme.
Information Governance Framework	Law and Governance	Follow-up	Reasonable	8 of the 17 recommendations had been implemented at the time of the audit and 9 were in progress. Previous opinion was Reasonable. High 2/4; Med2/8; Low 4/5
IT Strategy	Resources	Consultancy	n/a	Critical friend role via the Strategic Governance Board, where various policies have been discussed.
Risk Management	All	Consultancy	n/a	Involvement in the Risk Management Board and any emerging issues.
Corporate Board Structure	Law and Governance	Consultancy		A new corporate board structure was to be implemented to streamline roles and accountabilities at a senior management level, but this did not occur. Audit deferred.
Freedom of information	Law and Governance	Risk Based		Removed from plan due to higher priority work/additional work carried out for external organisations.

AUDIT ACTIVITY	Department	Audit Type	ASSURANCE LEVEL	RECOMMENDATIONS MADE					COMMENTARY
				Critical	High	Med	Low	Total	
FINANCIAL SYSTEMS									
Savings Targets	Resources	Risk Based	Limited	0	5	4	1	10	A review of the process for identifying and tracking the delivery of savings. Report to be finalised.
Procurement Card System	Resources	Consultancy (unplanned)	Limited	0	2	3	0	5	Provision of guidance on the control environment throughout the implementation phase of BSM. Report to be finalised.
Financial Rules	Resources	Consultancy (unplanned)	n/a	n/a	n/a	n/a	n/a	n/a	Advice during the update of the financial rules document, which forms part of the Constitution.
Agresso Access Permissions	Resources	Consultancy (unplanned)	n/a	n/a	n/a	n/a	n/a	n/a	Advice on control requirements when amending access permissions and financial authority within Agresso.
PayPal	Resources	Consultancy (unplanned)	n/a	n/a	n/a	n/a	n/a	n/a	Advice on control requirements for administering a PayPal account.
Payment Card Industry Standards	Resources	Consultancy (unplanned)	n/a	n/a	n/a	n/a	n/a	n/a	Advice on compliance with PCIS in relation to spend on accommodation.
Petty Cash Authorisation Process	Resources	Consultancy (unplanned)	n/a	n/a	n/a	n/a	n/a	n/a	Comment on proposed changes to the way in which petty cash reimbursements are approved.

Audit Activity	Department	Audit Type	Assurance Opinion	Recommendations Made					Description
				Critical	High	Med	Low	Total	
EXTERNAL ORGANISATIONS									
Peterborough investment Partnership	Growth and Regeneration	Risk Based	Reasonable	0	2	1	0	3	A review of the arrangements in place to manage the Council's interests in this joint venture arrangement.
Norfolk Property Services Peterborough	Resources	Risk Based	Limited	0	2	4	0	6	A review of the arrangements in place to manage the Council's interests in this joint venture arrangement, plus an overview of the management of the contract.
Mayor's Charity Fund	Law and Governance	Consultancy (unplanned)	n/a	n/a	n/a	n/a	n/a	n/a	Cash book redesign to facilitate reconciliations and easier production of annual accounts. Guidance on charity commission requirements, including the form and content of the Trustee's Annual Report.
		Compliance	Limited	0	4	12	4	20	Review of financial control and governance framework.
Shareholders Committee	Law and Governance	Consultancy (unplanned)							Deferred as committee not operational until May 2019.
PROGRAMMES AND PROJECTS									
Project Management (Verto)	Resources	Follow-up	Reasonable	n/a	n/a	n/a	n/a	n/a	4 actions from the previous audit were reviewed (all medium priority). 2 had been actioned and 2 were in progress. Previous opinion was Reasonable.
Nene Park Academy Project	People and Communities	Follow-up	Reasonable	n/a	n/a	n/a	n/a	n/a	2 actions from the previous audit were reviewed (both high priority). 1 had been actioned and 1 was in progress. Previous opinion was Reasonable.
Transition of Amey contract to Council LATCo	Growth and Regeneration	Risk Based							The management of the project to ensure the desired outputs are achieved. In progress

Audit Activity	Department	Audit Type	Assurance Opinion	Recommendations Made					Description
CONTRACTS AND PROCUREMENT									
Materials Recycling Facility contract	Growth and Regeneration	Follow-up	Reasonable	n/a	n/a	n/a	n/a	n/a	A review of agreed actions from the previous open-book review of operating data (previously a Limited Opinion). 15 out of 18 recommendations have been actioned, with 3 in progress. High: 6/8 actioned and 2 in progress. Med:6/7 actioned and 1 in progress. Low: 2/2 actioned.
Passenger Transport Contract	People and Communities	Risk Based	Reasonable	0	0	1	2	3	A look at how tendering and contract management arrangements provide assurance over safeguarding responsibilities. Report to be finalised.
Contract Tendering	Resources	Risk Based							Compilation of an assurance framework identifying ownership for controls in place to mitigate risks, and highlighting any gaps. Work in progress.
Permanency Contract (TACT)	People and Communities	Compliance							A review of contract management arrangements or an open book review of operational activities was planned. The audit was removed when an external consultant was engaged to resolve a contract dispute.
Commissioning	People and Communities	Risk Based							This audit was removed and replaced by another higher priority job.
Section 75 Contract	Public Health	Risk Based (unplanned)							A review of the contract in place between the Council and the CPFT was initiated, but the scope of the work was incorporated into a review by a consultant. Audit removed.

Audit Activity	Department	Audit Type	Assurance Opinion	Recommendations Made					Description
SERVICE DELIVERY									
Health and Safety	Growth and Regeneration	Risk Based	Reasonable	0	3	3	0	6	A review of the council's health and safety governance framework, including health and safety assurance over construction contracts.
Safeguarding	People and Communities	Compliance	Reasonable	0	0	3	3	6	A follow-up of the recommendations made following an external review of a specific incident/complaint.
0-25 Disabilities Service in Peterborough and Cambridge	People and Communities	Risk Based (unplanned)	Reasonable	0	0	4	3	7	A review of this service across both Peterborough and Cambridgeshire Councils (carried out as two separate jobs). Details here relate to Peterborough only. Report to be finalised.
Carbon Reduction Commitment	Growth and Regeneration	Compliance	Reasonable	0	0	5	0	5	Areas for improvement noted during the CRC certification process.
Right to Work	Law and Governance	Consultancy (unplanned)	Reasonable	n/a	n/a	n/a	n/a	n/a	A review of HR records to ensure documentation is held in respect of 'Right to Work' status and is in compliance with legislation.
Taxi Licensing	Resources	Risk Based	Substantial	0	0	0	3	3	Covering the process for issuing taxi licenses, including safeguarding arrangements, in accordance with the Serious Organised Crime Pilot.
Gifts and Hospitality	Law and Governance	Compliance	Reasonable	0	0	3	1	4	Covering the processes in place to protect against 'insider threat' aspects of the Serious Organised Crime report. Report yet to be finalised.
Human Resources – google documents	Law and Governance	Consultancy (unplanned)	n/a	n/a	n/a	n/a	n/a	n/a	Review of new google documents – time-sheets and leave cards, and advice on delegate permissions/access control.

Energy Billing	Resources	Consultancy (unplanned)	n/a	n/a	n/a	n/a	n/a	n/a	Investigation and advice regarding liability for energy bills at a specific site.
Audit Activity	Department	Audit Type	Assurance Opinion	Description					
Blue Badges	Growth and Regeneration	Follow-up	n/a	n/a	n/a	n/a	n/a	n/a	Previous opinion was Limited. The implementation of a new online system has superseded the three recommendations, although the implementation has been delayed and transitional assurance on processes is being reviewed as part of the NFI exercise.
Generic Logons	Resources	Consultancy (unplanned)							Advice on protocols for generic logon requests. Work in progress.
Statutory Testing	People and Communities	Follow-up							Audit deferred due to changes in the Amey contract.
Pupil Referral Unit	People and Communities	Risk Based							Audit removed due to higher priority work/additional work carried out for external organisations.
Family Safeguarding	People and Communities	Risk Based							Audit deferred due to higher priority work. Currently underway in 2019-20 plan as a post implementation project review.

Audit Activity	Department	Audit Type	Assurance Opinion	Description
ANTI FRAUD CULTURE				
National Fraud Initiative	All	Consultancy	n/a	The organisation and verification of the downloads of data from a variety of Council systems in order that they can be submitted for data matching. Resultant reports have been received and are being reviewed.

Special Investigation	People and Communities	Consultancy (unplanned)	n/a	An investigation looking at an allegation that irregular invoices were raised by one of our schools. As a result the invoices were amended.
Anti-Fraud Policies		Consultancy		Policies have been refreshed during the year. Training planned
Fraud Risks	All	Consultancy		Proactive testing of high risk areas. Removed due to higher priority work/additional work carried out for external organisations.

AUDIT ACTIVITY	Department	Audit Type	ASSURANCE LEVEL	COMMENTARY
GRANTS AND OTHER CERTIFICATION				
Bus Service Operators	Growth and Regeneration	Grant	Certified	A DfT grant to support bus services, including community transport services.
Integrated Transport and Highways Maintenance Grant	Growth and Regeneration	Grant	Certified	DfT scheme to help local authorities cut carbon emissions and create local growth.
Pothole Action Fund	Growth and Regeneration	Grant	Certified	A capital funded DfT grant to support pothole repairs.
National Productivity Investment Fund	Growth and Regeneration	Grant	Certified	New DfT funding for 2017/18 to improve local road networks and public transport.
Highways Maintenance Challenge Fund	Growth and Regeneration	Grant	Certified	This DfT grant is used by local authorities for small transport improvement schemes costing less than £5 million and also for planning and managing the road networks.
Disabled Facilities Grant	People and Communities	Grant	Certified	Non ring-fenced capital funding towards grants that the council can award to disabled clients for housing alterations.
Bourges Boulevard phase 2 Improvements	Growth and Regeneration	Grant	Certified	A GCGP grant for this specific scheme.
Connecting Families	People and Communities	Certification	Certified	A verification of each payment-by-results claim to MHCLG in relation to the government's Troubled Families programme. 10 claims were made in 2018-19. Including ongoing review of the Outcomes Plan, which describes the council's method for applying the qualification and success criteria.

Carbon Reduction Commitment	Growth and Regeneration	Certification	Certified	A verification of the Council's submission of annual energy usage figures in accordance with the requirements of the Environment Agency.
Mayor's Charity fund	Law and Governance	Certification	Certified	An audit of the accounts maintained in relation to fund-raising for the Mayor's Charities Fund in line with Charity Commission requirements. Including performing a bank reconciliation and compiling accounts for 16-17 and 17-18.

EXTERNAL WORKS	Work which generates income for the council
Combined Authority	7 reviews are completed or in progress for this external client.
Vivacity	9 reviews are completed or in progress for this external client.

APPENDIX B

FINAL AUDIT REPORTS ISSUED: OPINION OF LIMITED ASSURANCE OR NO ASSURANCE

AUDIT ACTIVITY	ASSURANCE RATING	DATE TO AUDIT COMMITTEE
NPSP Joint Venture	Limited	15 July 2019
Mayor's Charities Fund	Limited	15 July 2019

NORFOLK PROPERTY SERVICES PETERBOROUGH - Executive Summary

Introduction

Norfolk Property Services Peterborough is a joint venture company between Peterborough City Council and NPS Group. It began trading in July 2016, at the start of a 10 year contract, and delivers estates and asset management services.

Objectives and Scope

The purpose of the audit was to review joint venture (JV) arrangements to ensure that-

- It operates effectively and adequate governance arrangements are in place to include performance and risk management
- There is a written JV agreement / Contract and an effective JV structure
- There is an effective budget planning and monitoring process
- Communication and relations promote effective monitoring of business needs affordability and value for money

The scope covered the arrangements that the Council has put in place to manage the joint venture with Norfolk Property Services Peterborough (NPSP).

Main Findings

- The NPSP joint venture operates with the involvement of two key council officers. During the audit, the Corporate Director Growth and Regeneration acted as a director on the JV board and in this capacity had a duty to act in the best interests of the JV. There is also a Head of Property Services who manages the contract with NPSP to ensure the terms of the contract are met for the benefit of the Council. The Corporate Director Growth and Regeneration had direct line management responsibility for the Head of Property Services and, in the absence of any overarching scrutiny framework, this appears to be a conflict of interest. This arrangement is currently no longer in place, but is important that such conflicts are not repeated in any new management arrangements.
- The Service Specification is in need of review. Elements are unclear and open to interpretation, particularly in relation to facilities management, which has been explained as an omission to the specification. This omission has not been resolved in the two years since the contract began and has been compounded by a lack of clarity within the Council due to the split of responsibilities between the NPSP and Amey contracts. It is understood that this area is under review with the imminent proposals to bring the Amey contract deliverables into the new local authority trading company, Peterborough Ltd.

Conclusion and Opinion

Internal Audit's primary focus was how the Council manages the relationship with NPSP, both in terms of its role as a joint partner in the company, and also how it manages the delivery of the contract. Whilst there is good practice in place, Internal Audit has made observations in relation to potential conflicts of interest for those officers involved, the unclear elements of the Service Agreement and aspects of the contract management process. Internal Audit has also raised earlier concerns within the Peterborough Investment Partnership report, regarding the lack of formal governance structure for all commercial/external entities within Peterborough City Council in order to effectively monitor arrangements, activity and achievements as per Business Plans. The Director of Legal & Governance Services and the Acting Corporate Director Resources are currently reviewing and implementing a new structure and scrutiny arrangements to ensure it can be demonstrated that they operate in the best interests of the Council.

The audit opinion is Limited Assurance.

MAYOR'S CHARITIES FUND - Executive Summary

Introduction

Every May a new Mayor is elected by full Council from within their membership. One of the Mayor's roles is to nominate charities that they support, and to raise funds on behalf of those charities during their term of office, with the assistance of a new management committee of volunteers. The Mayor of Peterborough's Charity Fund (MPCF) is a registered charity in its own right, and is independent from the Council. The MPCF is required by the Charity Commission to upload accounts and a trustee's report every year to the Commission's website. Once accounts are finalised, all net proceeds are shared out between the nominated charities. This takes place early in the following mayoral year. The Charity Commission also require that where a charity's annual gross income exceeds certain thresholds, the accounts are subject to external scrutiny (i.e. either an independent examination or a full audit).

The Council provides support to the MPCF in a number of ways. For example, administrative support from council employees, provision of Council venues and equipment for fund-raising events, and printing of posters and tickets. Since September 2017 the role of MPCF Treasurer was brought 'in-house', and is performed by the Mayoral Services Manager. In the event that there were significant issues with the finances of the MPCF, the Council could have its own reputation damaged due to its closeness to the fund. It is therefore important that the council satisfies itself that the MPCF is being appropriately managed. An audit of the MPCF's accounts for mayoral year 2017/18 was requested as part of the 2018/19 audit plan.

Objectives and Scope

The scope initially covered the Mayor of Peterborough's Charities fund for 2017-8. The planned objectives were to:

- Carry out an independent examination of the fund for 2017-18, verifying the income and expenditure statement to source documentation and bank statements, in compliance with Charity Commission requirements.
- Evaluate controls for managing the fund and provide any advice needed (for example relating to segregation of duties, approvals, evidence and record keeping).

Following initial evaluation, our objectives were expanded to include:

- Perform a bank reconciliation for 2017-18, including any necessary adjustments to the workbook
- Compile a set of receipts and payments accounts for 2016-17 and 2017-18 as required by the Charity Commission
- Advise on the form and content of the Trustees' Annual Report, as required by the Charity Commission
- Advise on an appropriate format for the workbook, such that it assists with the performance of bank reconciliations and the production of accounts.

Main Findings

- Registration as a charity confers the obligation to upload to the Charity Commission's website by a specific deadline: a set of accounts; a statement that the accounts have been audited; and an annual trustees report. This deadline was missed for the 2016/17 year and the Charity Commission wrote to the trustees in July 2018 stating that the MPCF was in default of its legal obligations. A time extension was arranged with the Charity Commission, and the required documents were subsequently uploaded to the website by the revised deadline. Awareness of the Charity Commission requirements has increased during the course of this review, although some documented guidance would assist current and future members of the MPCF in fulfilling their roles.
- The MPCF has two governing documents. The constitution, dated December 2015, was adopted prior to registration as a charity. There is also a separate Memorandum of Understanding (MoU) between the key parties for each mayoral year. The constitution and MoUs differ over who the charity's trustees are. Additionally, the formal processes for handing over from one set of trustees from one mayoral year to the next set, as implied by the constitution, are not reflected in the MoU, and are not followed in practice. Work is already in progress to update and align both documents.
- A reconciliation of the bank balances to the calculated net proceeds was performed at year end, but this did not balance. A number of accounting errors were subsequently identified and corrected, enabling the correct net proceeds total to be established, and for this total to be reconciled against the bank account funds. Regular bank reconciliations throughout the year would enable earlier identification and correction of errors and anomalies; a smoother year end accounts and audit process; and speedier payments to the nominated charities.
- Approximately 70% of the income transactions examined for 2017-18 during testing were not supported by a written receipt. It is important that receipts are issued for all income so that it can be demonstrated that the income has been reflected in the accounts.
- The previous Treasurer's internet banking credentials had not been terminated. However there was no evidence of any suspicious transactions from the MPCF's bank account.
- There is a lack of required segregation of duties in the MPCF's financial processes, which presents a greater risks of fraud, error, and failing to maximise fund-raising. Examples include lack of managerial oversight of accounting records and cash held, ability of event organisers to reclaim their own expenses from cash held without submitting a claim, and freedom of organisers to spend what they like on the events they hold.

Conclusion and Opinion

Registration as a charity in late 2015 has resulted in the MPCF having a number of responsibilities, of which it had not previously been aware. During the course of this review, the MPCF's understanding of the Charity Commission's requirements has increased. Internal Audit are satisfied with the accounts for 2017-18, and there are no material issues to be reported. The Trustees' Annual Report for that year has been written, so the March 2019 deadline for uploading these documents to the Charity Commission's website should be met.

The review identified a number of financial and governance controls that need to be improved, and these have been discussed with the Civic Office throughout the review. These issues, along with further details in relation to the main findings mentioned above, are explained in the main body of this report, with recommendations on how they might be addressed. Internal Audit are continuing to provide advice and support. Work has been undertaken to deliver an enhanced accounting workbook that will semi-automate bank reconciliations and production of final accounts. This should assist the Treasurer in keeping the accounts balanced throughout the year, speeding up closure at year end, and reducing work in the long run. The Charity Commission also provide general guidance on internal financial controls, and this can be found at <https://www.gov.uk/government/publications/internal-financial-controls-for-charities-cc8>.

The audit opinion, based on the internal controls identified, is Limited Assurance. The Chief Internal Auditor's opinion in relation to the MPCF's accounts for 2017-18 as the charity's Independent Examiner is that:

"In connection with my examination, no matter has come to my attention:

- *Which gives me reasonable cause to believe that in, any material respect, the requirements to keep accounting records in accordance with the 2011 Act; and prepare accounts which accord with the accounting records and comply with the accounting requirements of the 2011 Act, have not been met; or*
- *To which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.*

While not impacting on the materiality of the accounts, some improvements have been identified to enhance the monitoring, record keeping, preparation and completion of accounts following a change of officers managing the accounts."